

LESLIE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2012

LESLIE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Leslie County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leslie County School District as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2012, on our consideration of Leslie County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or

on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and on pages 41 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate, operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leslie County School District's financial statements as a whole. The combining and individual non-major fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements, other supplemental information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 6, 2012

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2012

As management of the Leslie County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$348,940. The ending cash balance, including activity funds, for the District was \$1,958,228. The balance at June 30, 2012 includes \$1,099,981 considered Construction Fund cash. The June 30, 2011 cash balance reflects a \$1,126,737 deficit cash balance in Fund 2, Special Revenue Fund, and a corresponding \$1,144,494 receivable balance.
- Total federal expenditures for year ended June 30, 2012 was \$3,686,067 and for June 30, 2011 was \$4,515,166. 2010 and 2011 federal expenditures reflect increased funding related to the American Recovery and Reinvestment Act (ARRA).
- Interest revenue totaled \$55,418 for the current year ended and for the prior year the total interest revenue was \$42,156.
- The District's total long-term debt activity reflects a KISTA financing agreement for \$345,780 to acquire four busses; \$7,515,000 revenue bond to finance construction and renovation of WB Muncy Elementary School; \$1,355,000 revenue bond to finance construction and renovation of Hayes Lewis Elementary School and a new school bus garage; and, \$4,036,000 qualified school construction bonds for assistance in construction and renovation of an elementary school.
- The District's long-term debt reductions were \$668,776 for the fiscal year end.
- Fiscal year end construction expenditures for the year ended June 30, 2012 were \$5,958,157.
- Total 2012 general fund revenue was \$11,446,263, exclusive of on behalf state payments totaling \$3,038,110 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there was \$11,148,339 in general fund expenditures. For 2011, excluding on-behalf payments, total general fund revenue was \$10,640,601 and total general fund expenditures were \$10,440,785.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2012

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2012

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2012, assets exceeded liabilities by \$13,641,033.

The greatest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net assets for the year ended June 30, 2012

Following are comparisons of governmental net assets:

| | At June 30, | |
|--|-------------------|-------------------|
| | 2012 | 2011 |
| Current Assets | 12,035,550 | 1,244,975 |
| Noncurrent Assets | <u>29,037,864</u> | <u>26,155,804</u> |
| <u>Total Assets</u> | <u>41,073,414</u> | <u>27,400,779</u> |
| Current Liabilities | 2,535,609 | 1,328,124 |
| Noncurrent Liabilities | <u>24,896,825</u> | <u>12,870,006</u> |
| <u>Total Liabilities</u> | <u>27,432,434</u> | <u>14,198,130</u> |
| - Net Assets - | | |
| Investment in Capital Assets (net of debt) | 10,981,402 | 12,118,656 |
| Restricted | 334,235 | 166,047 |
| Unreserved Fund Balance | <u>2,325,396</u> | <u>917,946</u> |
| <u>Total Net Assets</u> | <u>13,641,033</u> | <u>13,202,649</u> |
| <u>Total Liabilities and Net Assets</u> | <u>41,073,467</u> | <u>27,400,779</u> |

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2012

The comparison reflects the following:

- Increase in current and non-current assets reflects short-term investments in bond proceeds for on-going construction in progress.
- Non-current and current liability changes reflect net increases for current year construction financing of District facilities.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund:

| | <u>Final</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|-------------------|-------------------|--|
| Revenues: | | | |
| From local sources | | | |
| Taxes | 3,110,464 | 3,529,293 | 418,829 |
| Earnings on investments | 20,000 | 50,807 | 30,807 |
| Other local revenue | 19,696 | 51,482 | 31,786 |
| Intergovernmental - state | 7,792,459 | 10,823,199 | 3,030,740 |
| Intergovernmental - indirect federal | 15,000 | 29,592 | 14,592 |
| <u>Total revenues</u> | <u>10,957,619</u> | <u>14,484,373</u> | <u>3,526,754</u> |
| Expenditures: | | | |
| Instructional | 5,310,297 | 7,191,661 | (1,881,364) |
| Student support services | 627,891 | 892,292 | (264,401) |
| Staff support services | 594,380 | 636,191 | (41,811) |
| District administration | 303,485 | 462,511 | (159,026) |
| School administration | 899,146 | 1,088,844 | (189,698) |
| Business support | 293,510 | 410,208 | (116,698) |
| Plant operation and management | 1,609,162 | 1,874,464 | (265,302) |
| Student transportation | 1,418,545 | 1,561,080 | (142,535) |
| Community service activities | 5,000 | 5,089 | (89) |
| Employee benefits | 118,341 | 64,109 | 54,232 |
| Contingency | 475,570 | - | 475,570 |
| <u>Total expenditures</u> | <u>11,655,327</u> | <u>14,186,449</u> | <u>(2,531,122)</u> |
| Excess (deficit) of revenue over expenditures | <u>(697,708)</u> | <u>297,924</u> | <u>995,632</u> |

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2012

- Actual revenues and expenditures reflect unbudgeted state on-behalf payments for retirement, health and life insurance and technical education in the amount of \$3,192,373.
- Local property tax revenues were \$522,784 greater than budgeted revenue.

The following table presents a summary comparison of statement of activities for the fiscal years ended June 30, 2012 and 2011:

| | At June 30, | |
|---------------------------------------|-------------------|-------------------|
| | <u>2012</u> | <u>2011</u> |
| Revenues: | | |
| Local revenue sources | 4,653,376 | 4,186,324 |
| State revenue sources | 13,152,069 | 12,843,874 |
| Federal revenue | <u>3,888,492</u> | <u>4,295,821</u> |
| <u>Total revenues</u> | <u>21,693,937</u> | <u>21,326,019</u> |
| Expenses: | | |
| Instruction | 10,515,538 | 10,648,982 |
| Student support services | 1,066,793 | 1,101,077 |
| Instructional support | 926,847 | 923,448 |
| District administration | 464,566 | 329,413 |
| School administration | 1,089,656 | 1,078,441 |
| Business support | 480,746 | 413,273 |
| Plant operation and management | 2,541,688 | 2,673,568 |
| Student transportation | 1,795,470 | 1,540,340 |
| Community support | 224,717 | 252,178 |
| Food service operations | 1,300,937 | 1,213,886 |
| Interest on long-term debt | <u>584,050</u> | <u>482,657</u> |
| <u>Total expenses</u> | <u>20,991,008</u> | <u>20,657,263</u> |
| <u>Revenues in excess of expenses</u> | <u>702,929</u> | <u>668,756</u> |

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2012

- Local property tax revenues for the current year ended exceeded prior year property tax revenues by \$386,193.
- Depreciation expense was \$1,027,948 for the current year.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$337,794 in contingency (3.11%).

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same except for real estate and tangible property tax increase from .473 per \$100 to .543 per \$100 for which .116 has been committed to the building fund. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 672-2397.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

At June 30, 2012

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|-------------------|
| Assets: | | | |
| - Current Assets - | | | |
| Cash and cash equivalents | 1,675,305 | 191,786 | 1,867,091 |
| Investments | 8,778,760 | - | 8,778,760 |
| Accounts receivable: | | | |
| Taxes - current | 90,331 | - | 90,331 |
| Taxes - delinquent | 11,317 | - | 11,317 |
| Other | 114,860 | - | 114,860 |
| Intergovernmental - Indirect Federal | 1,144,494 | 2,384 | 1,146,878 |
| Inventories | - | 26,366 | 26,366 |
| <u>Total current assets</u> | <u>11,815,067</u> | <u>220,536</u> | <u>12,035,603</u> |
| - Noncurrent Assets - | | | |
| Bond issuance costs and discounts - net | 231,028 | - | 231,028 |
| Capital assets | 38,765,217 | 2,442,004 | 41,207,221 |
| Less: accumulated depreciation | (11,618,515) | (781,870) | (12,400,385) |
| <u>Total noncurrent assets</u> | <u>27,377,730</u> | <u>1,660,134</u> | <u>29,037,864</u> |
| <u>Total assets</u> | <u>39,192,797</u> | <u>1,880,670</u> | <u>41,073,467</u> |
| Liabilities: | | | |
| - Current liabilities - | | | |
| Accounts payable | 597,175 | 37 | 597,212 |
| Current portion of bond/lease obligations | 1,224,961 | - | 1,224,961 |
| Interest payable | 713,436 | - | 713,436 |
| <u>Total current liabilities</u> | <u>2,535,572</u> | <u>37</u> | <u>2,535,609</u> |
| - Noncurrent liabilities - | | | |
| Noncurrent portion of bond/lease obligations | 24,896,825 | - | 24,896,825 |
| <u>Total liabilities</u> | <u>27,432,397</u> | <u>37</u> | <u>27,432,434</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 9,321,268 | 1,660,134 | 10,981,402 |
| Restricted for: | | | |
| Sick leave | 113,736 | - | 113,736 |
| Other | - | 220,499 | 220,499 |
| Unrestricted | 2,325,396 | - | 2,325,396 |
| <u>Total net assets</u> | <u>11,760,400</u> | <u>1,880,633</u> | <u>13,641,033</u> |
| <u>Total liabilities and net assets</u> | <u>39,192,797</u> | <u>1,880,670</u> | <u>41,073,467</u> |

See notes to financial statements.

10.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

| | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--|--------------------------|-------------------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants & Contributions</u> | <u>Capital Grants & Contributions</u> |
| FUNCTIONS/PROGRAMS: | | | | |
| - Governmental Activities - | | | | |
| Instructional | 10,515,538 | - | (5,005,390) | - |
| Support services: | | | | |
| Student | 1,066,793 | - | (460,918) | - |
| Instructional staff | 926,847 | - | (404,833) | - |
| District administration | 464,566 | - | (24,273) | - |
| School administration | 1,089,656 | - | (259,225) | - |
| Business support | 480,746 | - | (132,019) | - |
| Plant operation and management | 2,541,688 | - | (121,387) | - |
| Student transportation | 1,795,470 | - | (376,178) | - |
| Community services operations | 224,717 | - | (219,421) | - |
| Interest on long-term debt | 584,050 | - | - | - |
| <u>Total governmental activities</u> | <u>19,690,071</u> | <u>-</u> | <u>(7,003,644)</u> | <u>-</u> |
| - Business-type Activities - | | | | |
| Food service | 1,300,937 | (353,937) | (873,069) | - |
| <u>Total business-type activities</u> | <u>1,300,937</u> | <u>(353,937)</u> | <u>(873,069)</u> | <u>-</u> |
| <u>Total primary government</u> | <u>20,991,008</u> | <u>(353,937)</u> | <u>(7,876,713)</u> | <u>-</u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2012

| | Net (Expense) Revenue and Changes in Net Assets | | |
|--------------------------------------|---|---------------------------------|--------------------------|
| | Governmental Activities | Business- Type Activities | Total |
| | (5,510,148) | - | (5,510,148) |
| | (605,875) | - | (605,875) |
| | (522,014) | - | (522,014) |
| | (440,293) | - | (440,293) |
| | (830,431) | - | (830,431) |
| | (348,727) | - | (348,727) |
| | (2,420,301) | - | (2,420,301) |
| | (1,419,292) | - | (1,419,292) |
| | (5,296) | - | (5,296) |
| | <u>(584,050)</u> | <u>-</u> | <u>(584,050)</u> |
| | <u>(12,686,427)</u> | <u>-</u> | <u>(12,686,427)</u> |
| | <u>-</u> | <u>(73,931)</u> | <u>(73,931)</u> |
| | <u>-</u> | <u>(73,931)</u> | <u>(73,931)</u> |
| | <u>(12,686,427)</u> | <u>(73,931)</u> | <u>(12,760,358)</u> |
| General revenues: | | | |
| Taxes | 4,102,941 | - | 4,102,941 |
| Investment earnings | 50,807 | 4,611 | 55,418 |
| State and formula grants | 9,163,848 | - | 9,163,848 |
| Miscellaneous | <u>141,080</u> | <u>-</u> | <u>141,080</u> |
| <u>Total general revenues</u> | <u>13,458,676</u> | <u>4,611</u> | <u>13,463,287</u> |
| Change in net assets | 772,249 | (69,320) | 702,929 |
| Net assets - beginning (restated) | <u>10,988,151</u> | <u>1,949,953</u> | <u>12,938,104</u> |
| Net assets - ending | <u><u>11,760,400</u></u> | <u><u>1,880,633</u></u> | <u><u>13,641,033</u></u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2012

| | General Fund | Special Revenue | Construction Fund | Other Gov't Funds | Total Gov't Funds |
|--|------------------|--------------------|----------------------|-------------------------|-------------------------|
| Assets and resources: | | | | | |
| Cash and cash equivalents | 1,678,186 | - | 1,090,165 | 33,691 | 2,802,042 |
| Investments | - | - | 8,778,760 | - | 8,778,760 |
| Accounts receivable: | | | | | |
| Taxes - current | 90,331 | - | - | - | 90,331 |
| Taxes - delinquent | 11,317 | - | - | - | 11,317 |
| Other | 110,783 | - | - | - | 110,783 |
| Intergovernmental - Indirect Federal | - | 1,144,494 | - | - | 1,144,494 |
| <u>Total assets and resources</u> | <u>1,890,617</u> | <u>1,144,494</u> | <u>9,868,925</u> | <u>33,691</u> | <u>12,937,727</u> |
| Liabilities and fund balances: | | | | | |
| Cash deficit | - | 1,126,737 | - | - | 1,126,737 |
| Accounts payable | 64,929 | 17,757 | 514,488 | - | 597,174 |
| <u>Total liabilities</u> | <u>64,929</u> | <u>1,144,494</u> | <u>514,488</u> | <u>-</u> | <u>1,723,911</u> |
| Fund balance | | | | | |
| Committed - sick leave | 113,736 | - | - | - | 113,736 |
| Committed - other | - | - | - | 34,421 | 34,421 |
| Unassigned fund balance | 1,711,952 | - | 9,354,437 | (730) | 11,065,659 |
| <u>Total fund balances</u> | <u>1,825,688</u> | <u>-</u> | <u>9,354,437</u> | <u>33,691</u> | <u>11,213,816</u> |
| <u>Total liabilities and fund balances</u> | <u>1,890,617</u> | <u>1,144,494</u> | <u>9,868,925</u> | <u>33,691</u> | <u>12,937,727</u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETSAt June 30, 2012

| | |
|--|------------|
| Total fund balance per fund financial statements | 11,213,816 |
|--|------------|

Amounts reported for governmental activities in the
statement of net assets are different because:

| | |
|--|------------|
| Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net assets. | 27,377,730 |
|--|------------|

| | |
|---|---------------------|
| Certain liabilities (such as bonds payable, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net assets. | <u>(26,831,146)</u> |
|---|---------------------|

| | |
|--|--------------------------|
| Net assets for governmental activities | <u><u>11,760,400</u></u> |
|--|--------------------------|

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Construction Fund</u> | <u>Other Gov't Funds</u> | <u>Total Gov't Funds</u> |
|---|-------------------------|----------------------------|------------------------------|------------------------------|------------------------------|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes | 3,529,293 | - | - | 573,648 | 4,102,941 |
| Earnings on investments | 50,807 | - | - | - | 50,807 |
| Other local revenue | 51,482 | - | 84,698 | - | 136,180 |
| Intergovernmental - state | 10,823,199 | 960,891 | - | 1,367,979 | 13,152,069 |
| Intergovernmental - indirect federal | 29,592 | 2,985,831 | - | - | 3,015,423 |
| <u>Total revenues</u> | <u>14,484,373</u> | <u>3,946,722</u> | <u>84,698</u> | <u>1,941,627</u> | <u>20,457,420</u> |
| Expenditures: | | | | | |
| Instructional | 7,191,661 | 3,169,315 | - | - | 10,360,976 |
| Student support services | 892,292 | 131,554 | - | - | 1,023,846 |
| Staff support services | 636,191 | 281,853 | - | - | 918,044 |
| District administration | 462,511 | - | - | - | 462,511 |
| School administration | 1,088,844 | - | - | - | 1,088,844 |
| Business support | 410,208 | 51,533 | - | - | 461,741 |
| Plant operations and management | 1,874,464 | 12,732 | - | - | 1,887,196 |
| Student transportation | 1,561,080 | 99,126 | - | - | 1,660,206 |
| Community service activities | 5,089 | 219,421 | - | - | 224,510 |
| Employee benefits | 64,109 | - | - | - | 64,109 |
| New building construction | - | - | 5,958,157 | - | 5,958,157 |
| Debt service: | | | | | |
| Principal | - | - | - | 668,776 | 668,776 |
| Interest | - | - | - | 577,288 | 577,288 |
| <u>Total expenditures</u> | <u>14,186,449</u> | <u>3,965,534</u> | <u>5,958,157</u> | <u>1,246,064</u> | <u>25,356,204</u> |
| Excess (deficit) of revenues over expenditures | <u>297,924</u> | <u>(18,812)</u> | <u>(5,873,459)</u> | <u>695,563</u> | <u>(4,898,784)</u> |
| Other financing sources (uses): | | | | | |
| Bond proceeds | - | - | 15,282,500 | - | 15,282,500 |
| Gain (loss) on disposal of assets | 4,900 | - | - | - | 4,900 |
| Operating transfers in | 849,511 | 18,812 | - | 597,911 | 1,466,234 |
| Operating transfers out | (172,030) | - | - | (1,294,204) | (1,466,234) |
| <u>Total other financing sources (uses)</u> | <u>682,381</u> | <u>18,812</u> | <u>15,282,500</u> | <u>(696,293)</u> | <u>15,287,400</u> |
| Excess (deficit) of revenue and other financing sources over expenditures/other financing uses | 980,305 | - | 9,409,041 | (730) | 10,388,616 |
| Fund balance - July 1, 2011 | <u>845,383</u> | <u>-</u> | <u>(54,604)</u> | <u>34,421</u> | <u>825,200</u> |
| Fund balance - June 30, 2012 | <u><u>1,825,688</u></u> | <u><u>-</u></u> | <u><u>9,354,437</u></u> | <u><u>33,691</u></u> | <u><u>11,213,816</u></u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2012

| | |
|--|-----------------------|
| Net change in total fund balances per fund financial statements. | 10,388,616 |
| Amounts reported for governmental activities in the statement of activities differences: | |
| Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. The difference is the amount by which capital outlays exceed depreciation for the year. | 5,004,120 |
| Bond proceeds are recognized as receipts from other financing sources in the fund financial statements but are increases in debt in the government wide financial statements. | (15,282,500) |
| Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets. | <u>662,013</u> |
| Change in net assets of governmental activities | <u><u>772,249</u></u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

At June 30, 2012

| | <u>Food Service Fund</u> |
|---|------------------------------|
| Assets: | |
| - Current Assets - | |
| Cash and cash equivalents | 191,786 |
| Accounts receivable: | |
| Intergovernmental - indirect Federal | 2,384 |
| Inventories | <u>26,366</u> |
| <u>Total current assets</u> | <u>220,536</u> |
| - Noncurrent Assets - | |
| Capital assets | 2,442,004 |
| Less: accumulated depreciation | <u>(781,870)</u> |
| <u>Total noncurrent assets</u> | <u>1,660,134</u> |
| <u>Total assets</u> | <u><u>1,880,670</u></u> |
| Liabilities: | |
| - Current Liabilities - | |
| Accounts payable | <u>37</u> |
| <u>Total current liabilities</u> | <u>37</u> |
| Net assets: | |
| Investments in capital assets | 1,660,134 |
| Reserve for inventories | 26,366 |
| Restricted - other | <u>194,133</u> |
| <u>Total net assets</u> | <u>1,880,633</u> |
| <u>Total liabilities and net assets</u> | <u><u>1,880,670</u></u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – PROPRIETARY FUNDSFor the Year Ended June 30, 2012

| | <u>Food service Fund</u> |
|---|------------------------------|
| Operating revenues: | |
| Lunchroom sales | 353,937 |
| State revenue | 9,894 |
| On-behalf contributions | 216,776 |
| Federal revenue | <u>646,399</u> |
| <u>Total operating revenues</u> | <u>1,227,006</u> |
| Operating expense: | |
| Salaries and wages | 651,497 |
| Contract services | 21,549 |
| Materials and supplies | 538,719 |
| Other operating expenses | 15,231 |
| Depreciation | <u>73,941</u> |
| <u>Total operating expenses</u> | <u>1,300,937</u> |
| <u>Operating income (loss)</u> | <u>(73,931)</u> |
| Nonoperating Revenue/(Expense): | |
| Interest income | <u>4,611</u> |
| <u>Total nonoperating revenue/(expense)</u> | <u>4,611</u> |
| <u>Net income (loss)</u> | <u>(69,320)</u> |
| Net assets, July 1, 2011 | 2,009,034 |
| Restated, change in fixed asset recognition threshold | <u>(59,081)</u> |
| Net assets, June 30, 2012 | <u><u>1,880,633</u></u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2012

| | <u>Food Service Fund</u> |
|---|------------------------------|
| Cash flows from operating activities: | |
| Cash received from: | |
| Lunchroom sales | 353,937 |
| State revenue | 9,894 |
| Federal revenue | 648,240 |
| Cash paid to/for: | |
| Employees | (497,234) |
| Supplies/Contractual | <u>(506,149)</u> |
| <u>Net cash provided (used) by operating activities</u> | <u>8,688</u> |
| Cash flows from capital and related financing activities: | |
| Changes in capital assets | <u>(59,867)</u> |
| Cash flows from investing activities: | |
| Interest income | <u>4,611</u> |
| Cash flows from financing activities: | <u>-</u> |
| Net increase (decrease) in cash | (46,568) |
| Cash, beginning of year | <u>238,354</u> |
| Cash, end of year | <u>191,786</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operations: | |
| Operating income (loss) | (73,931) |
| Adjustments to reconcile operating income to cash provided (used) by operating activities: | |
| Depreciation | 73,941 |
| Changes in current assets/liabilities: | |
| Accounts receivable | 1,841 |
| Inventories | 8,476 |
| Accounts payable | <u>(1,639)</u> |
| <u>Net cash provided (used) by operating activities</u> | <u>8,688</u> |

Noncash transactions include \$216,776 on-behalf payments recognized for the school food service program.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET ASSETS – ACTIVITY FUNDSAt June 30, 2012**Assets:**

| | |
|---------------------------|---------------|
| Cash and cash equivalents | 91,190 |
| Accounts receivable | <u>-</u> |
| <u>Total assets</u> | <u>91,190</u> |

Liabilities:

| | |
|--|---------------|
| Accounts payable | 3,633 |
| Due to individual student activity account funds | <u>87,557</u> |
| <u>Total liabilities</u> | <u>91,190</u> |

Net assets:

| | |
|---|---------------|
| Permanently restricted for scholarships | <u>-</u> |
| <u>Total liabilities and net assets</u> | <u>91,190</u> |

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Leslie County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Leslie County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Leslie County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Leslie County School District Finance Corporation – On September 11, 1990, the Leslie County, Kentucky, Board of Education resolved to authorize the establishment of the Leslie County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Leslie County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The proprietary funds are accounted for using GASB standards as well as standards issued by the FASB through November 1989 and that do not conflict with GASB Standards. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.543 per \$100 valuation for real property, \$.543 per \$100 valuation for business personal property and \$.473 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars beginning July 1, 2011. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Buildings and improvements | 25-50 years |
| Land improvements | 20 years |
| Technology equipment | 5 years |
| Vehicles | 5-10 years |
| Audio-visual equipment | 15 years |
| Food service equipment | 10-12 years |
| Furniture and fixtures | 7 years |

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2012.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These balances are recorded in the account "accumulated sick leave payable" in the government-wide financial statements. A reserve for accumulated sick leave at June 30, 2012 reflected a balance of \$113,736.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$3,652,769. Of the total cash balance, \$250,000 was covered by Federal depository insurance and the balance was covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The US Bank Construction Fund accounts were established to disburse construction expenditures related to District construction. The funds were held in First American government obligation funds. At June 30, 2012, the funds were insured or guaranteed by the Federal Deposit Insurance Corporation.

Cash and cash equivalents at June 30, 2012 consisted of the following:

| | <u>Bank Balance</u> | <u>Book Balance</u> |
|-----------------------------|-------------------------|-------------------------|
| Hyden Citizens Bank: | | |
| General Operating Account | 3,552,005 | 1,866,598 |
| Hayes Lewis Elementary | 15,251 | 15,086 |
| Mountain View Elementary | 5,346 | 5,346 |
| Leslie County High School | 23,243 | 20,601 |
| Leslie County Middle School | 6,065 | 6,065 |
| Stinnett Elementary | 29,046 | 26,633 |
| WB Muncy Elementary | 17,529 | 17,459 |
| US Bank: | | |
| Construction Account | 4,284 | 184 |
| Cash registers - lunchrooms | - | 309 |
| <u>Total</u> | <u>3,652,769</u> | <u>1,958,281</u> |

Investments Construction Fund reflect construction projects committed in the fund financial statements, \$8,778,760, represents the remainder of bond proceeds and other financing for Hayes Lewis Elementary, \$123,543; WB Muncy Elementary, \$7,435,901; and Bus Garage, \$1,219,316.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution except for funds held at U.S. Bank from debt service proceeds for District construction and renovation projects. Some of the primary risks associated with these funds: a major change in interest rates; a default on a security or repurchase agreement held by the fund; proceeds from sales of collateral are less than the agreed-upon purchase price. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the School District Finance Corporation.

The original amount of each issue, the issue date and interest rates are summarized as follows:

| <u>Issue Date</u> | <u>Proceeds</u> | <u>Rates</u> |
|--------------------------------|-----------------|----------------|
| Revenue Series, September 1996 | \$ 240,000 | 5.00% - 5.375% |
| KISTA Series 2004 | 837,401 | 1.00% - 3.50% |
| KISTA Series 2005 | 233,280 | 3.00% - 3.625% |
| Revenue Series, September 2006 | 1,520,000 | 3.75% - 4.00% |
| Revenue Series, July 2007 | 8,500,000 | 3.70% - 4.125% |
| KISTA Series 2008 | 236,521 | 3.00% - 3.750% |
| Revenue Series, August 2009 | 1,200,000 | 1.70 % - 4.20% |
| KISTA Refunding Series 2009R | 283,755 | 1.00% - 3.30% |
| Revenue Series, July 2011 | 2,425,000 | 1.00% - 4.25% |
| Revenue Series, December 2011 | 7,515,000 | 2.00% - 3.375% |
| QSCB Series, December 2011 | 4,036,000 | 5.00% - 5.00% |
| KISTA Series 2012 | 345,780 | 2.00% - 2.625% |

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund and Building Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Leslie County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1990, the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

Revenue Bonds issued and dated December 1, 2011 were for financing construction and renovation of WB Muncy Elementary School. Total bond principal issued was \$7,515,000. Of this amount, \$7,339,441.65 was deposited into the construction fund checking account. Bond issue costs totaled \$71,604 and the discount was \$103,954.35.

Revenue bonds issued and dated April 1, 2012 were for completion of Hayes Lewis Elementary renovation and construction project and for the construction of the District's new bus garage. The principal totaled \$1,355,000. Of this amount, \$1,342,859 was deposited into the Construction Fund account. Bond issue costs were \$19,750. The Bond was issued at a premium of \$9,608.55.

The District entered into a long term financing agreement with Kentucky Interlocal School Transportation Association (KISTA), to acquire four school busses. The total principal was \$345,780.

Debt issue costs are recognized as expenditures when incurred in governmental funds but are deferred and amortized over the term of the debt issue for government-wide and proprietary fund types financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations for the district, including amounts to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are as follows:

| Year | Leslie County School District | | Kentucky School Facilities Construction Commission | | Total |
|-----------|-------------------------------|----------|--|----------|-----------|
| | Principal | Interest | Principal | Interest | |
| 2012 - 13 | 682,848 | 433,967 | 367,957 | 279,469 | 1,764,241 |
| 2013 - 14 | 730,898 | 419,905 | 381,142 | 265,365 | 1,797,310 |
| 2014 - 15 | 659,444 | 402,545 | 396,029 | 250,578 | 1,708,596 |
| 2015 - 16 | 650,519 | 386,621 | 411,621 | 235,074 | 1,683,835 |
| 2016 - 17 | 662,913 | 371,005 | 422,686 | 219,016 | 1,675,620 |
| 2017 - 18 | 678,707 | 354,392 | 426,612 | 202,611 | 1,662,322 |
| 2018 - 19 | 670,490 | 337,335 | 443,846 | 185,690 | 1,637,361 |

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

| <u>Year</u> | <u>Leslie County School District</u> | | <u>Kentucky School Facilities Construction Commission</u> | | <u>Total</u> |
|---------------|--------------------------------------|------------------|---|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2019 - 20 | 690,238 | 318,946 | 456,979 | 168,021 | 1,634,184 |
| 2020 - 21 | 697,468 | 300,577 | 448,495 | 150,038 | 1,596,578 |
| 2021 - 22 | 719,408 | 281,026 | 467,486 | 131,718 | 1,599,638 |
| 2022 - 23 | 708,408 | 260,615 | 486,592 | 112,637 | 1,568,252 |
| 2023 - 24 | 728,452 | 239,857 | 506,548 | 92,774 | 1,567,631 |
| 2024 - 25 | 747,402 | 217,590 | 527,598 | 71,884 | 1,564,474 |
| 2025 - 26 | 776,129 | 193,849 | 548,871 | 49,865 | 1,568,714 |
| 2026 - 27 | 802,334 | 167,926 | 547,666 | 27,357 | 1,545,283 |
| 2027 - 28 | 830,483 | 140,272 | 359,517 | 8,688 | 1,338,960 |
| 2028 - 29 | 858,492 | 114,303 | 16,508 | 919 | 990,222 |
| 2029 - 30 | 891,362 | 83,740 | 13,638 | 286 | 989,026 |
| 2030 - 31 | 925,000 | 51,432 | - | - | 976,432 |
| 2031 - 32 | 745,000 | 14,945 | - | - | 759,945 |
| <u>Totals</u> | <u>14,855,995</u> | <u>5,090,848</u> | <u>7,229,791</u> | <u>2,451,990</u> | <u>29,628,624</u> |

Leslie County School District Finance Corporation issued Qualified School Construction Bonds, taxable series dated December 1, 2011 having a par amount of \$4,036,000. Of this amount \$3,985,909 of the proceeds were deposited directly to the construction fund for assistance in new building facilities and renovation for an elementary school. Total bond issue costs were \$10,700. The bond was issued at a discount of \$39,391.

| | <u>QSCB Series 2011 Escrow Payment</u> | | <u>Expected Escrow Earnings</u> | <u>QSCB Series 2011 Interest</u> | |
|------|--|--------------|---------------------------------|----------------------------------|-------------------|
| | <u>Board</u> | <u>KSFCC</u> | | <u>Total</u> | <u>Tax Credit</u> |
| 2013 | 128,595 | 41,484 | 4,077 | 201,800 | (201,800) |
| 2014 | 127,675 | 42,404 | 8,254 | 201,800 | (201,800) |
| 2015 | 127,776 | 42,303 | 12,564 | 201,800 | (201,800) |
| 2016 | 127,863 | 42,216 | 16,995 | 201,800 | (201,800) |
| 2017 | 127,909 | 42,170 | 21,452 | 201,800 | (201,800) |
| 2018 | 127,950 | 42,129 | 26,203 | 201,800 | (201,800) |
| 2019 | 128,013 | 42,066 | 30,690 | 201,800 | (201,800) |
| 2020 | 128,101 | 41,978 | 35,504 | 201,800 | (201,800) |
| 2021 | 131,456 | 38,623 | 40,546 | 201,800 | (201,800) |
| 2022 | 131,455 | 38,624 | 45,610 | 201,800 | (201,800) |
| 2023 | 131,455 | 38,624 | 50,796 | 201,800 | (201,800) |
| 2024 | 131,456 | 38,623 | 56,263 | 201,800 | (201,800) |
| 2025 | 131,456 | 38,623 | 61,376 | 201,800 | (201,800) |
| 2026 | 131,456 | 38,623 | 67,123 | 201,800 | (201,800) |
| 2027 | 131,456 | 38,623 | 72,816 | 201,800 | (201,800) |

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

| | | QSCB Series 2011 | | Expected Escrow Earnings | QSCB Series 2011 | | semi- interest are due June and through 1, 2030. tax credit same has been for each |
|---|------|-------------------------|----------------|--------------------------------|-------------------|--------------------|---|
| | | Escrow Payment Board | KSFCC | | Interest Total | Tax Credit | |
| \$100,900 annual payments every December December A federal for the amount granted | 2028 | 131,456 | 38,623 | 78,655 | 201,800 | (201,800) | |
| | 2029 | 131,456 | 38,623 | 85,109 | 201,800 | (201,800) | |
| | 2030 | 128,392 | 41,687 | 90,507 | 201,800 | (201,800) | |
| | 2031 | <u>128,654</u> | <u>41,424</u> | <u>-</u> | <u>(100,900)</u> | <u>(100,900)</u> | |
| | | <u>2,464,030</u> | <u>767,470</u> | <u>804,540</u> | <u>3,531,500</u> | <u>(3,733,300)</u> | |
| Principal payment due 12/1/2030 | | | | <u>4,036,000</u> | | | |

bondholder resulting in a subsidy/federal on-behalf payment for the School District. The action is a result of creation of qualified school construction bonds under the American Recovery and Reinvestment Act. The Act allows deferral of principal payments for up to 17 years and the creation of an escrow account as noted above. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce the issuer's cost of borrowing. The A-133 Compliance Supplement acknowledges Qualified School Construction Bonds passed through the U.S. Department of Education are not covered by the single audit requirements and are not required to be included in the Schedule of Federal Awards.

Following are changes in long-term debt:

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 |
|------------------------------|-------------------------|-------------------|----------------|--------------------------|
| Revenue Series Sept 1996 | 100,000 | - | 15,000 | 85,000 |
| KISTA Series 2004 | 243,253 | - | 89,228 | 154,025 |
| KISTA Series 2005 | 93,459 | - | 24,346 | 69,113 |
| Revenue Series Sept 2006 | 1,300,000 | - | 60,000 | 1,240,000 |
| Revenue Series July 2007 | 7,800,000 | - | 335,000 | 7,465,000 |
| KISTA Series 2008 | 164,954 | - | 22,442 | 142,512 |
| Bonds Series 2009 | 1,190,000 | - | 45,000 | 1,145,000 |
| KISTA Refunding Series 2009R | 222,116 | - | 22,760 | 199,356 |
| Revenue Series June 2011 | 2,425,000 | - | 55,000 | 2,370,000 |
| Revenue Series December 2011 | - | 7,515,000 | - | 7,515,000 |
| QSCB Series December 2011 | - | 4,036,000 | - | 4,036,000 |
| KISTA Series 2012 | - | 345,780 | - | 345,780 |
| Revenue Series June 2011 | - | 1,355,000 | - | 1,355,000 |
| <u>Total</u> | <u>13,538,782</u> | <u>13,251,780</u> | <u>668,776</u> | <u>26,121,786</u> |

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2012

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

| | Balance July 1, 2011 | Additions | Deductions | Balance June 30, 2012 |
|---------------------------------------|-------------------------|------------------|------------------|--------------------------|
| <u>Governmental Activities</u> | | | | |
| Land | 654,157 | - | - | 654,157 |
| Land improvements | 403,889 | - | 93,967 | 309,922 |
| Buildings and improvements | 28,172,065 | - | 16,892 | 28,155,173 |
| Technology equipment | 1,978,673 | - | 1,718,177 | 260,496 |
| Vehicles | 2,787,740 | 250,406 | - | 3,038,146 |
| General equipment | 501,967 | - | 329,681 | 172,286 |
| Construction work in progress | 2,425,000 | 3,750,037 | - | 6,175,037 |
| <u>Totals at historical cost</u> | <u>36,923,491</u> | <u>4,000,443</u> | <u>2,158,717</u> | <u>38,765,217</u> |
| Less: accumulated depreciation | | | | |
| Land and improvements | 370,581 | - | 80,530 | 290,051 |
| Buildings and improvements | 8,041,914 | 595,383 | - | 8,637,297 |
| Technology equipment | 1,378,452 | - | 1,248,128 | 130,324 |
| Vehicles | 2,275,332 | 133,537 | - | 2,408,869 |
| General equipment | 451,649 | - | 299,675 | 151,974 |
| <u>Total accumulated depreciation</u> | <u>12,517,928</u> | <u>728,920</u> | <u>1,628,333</u> | <u>11,618,515</u> |
| Governmental Activities | | | | |
| <u>Capital Assets - Net</u> | <u>24,405,563</u> | <u>3,271,523</u> | <u>(530,384)</u> | <u>27,146,702</u> |
| <u>Business-Type Activities</u> | | | | |
| Buildings and improvements | 2,010,854 | - | - | 2,010,854 |
| Food service and equipment | 795,127 | 51,077 | 429,714 | 416,490 |
| Technology equipment | 13,128 | 1,532 | - | 14,660 |
| <u>Totals at historical cost</u> | <u>2,819,109</u> | <u>52,609</u> | <u>429,714</u> | <u>2,442,004</u> |
| Less: accumulated depreciation | | | | |
| Buildings and improvements | 544,020 | 39,932 | - | 583,952 |
| Food service and equipment | 517,871 | 26,326 | 360,939 | 183,258 |
| Technology equipment | 6,977 | 7,683 | - | 14,660 |
| <u>Total accumulated depreciation</u> | <u>1,068,868</u> | <u>73,941</u> | <u>360,939</u> | <u>781,870</u> |
| Business-Type Activities | | | | |
| <u>Capital Assets - Net</u> | <u>1,750,241</u> | <u>(21,332)</u> | <u>68,775</u> | <u>1,660,134</u> |

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental and proprietary functions as follows:

Governmental functions:

| | |
|---------------------------------|------------|
| Instructional | 90,452 |
| Student support services | 42,947 |
| Instructional staff support | 8,803 |
| District administration | 2,055 |
| School administration | 812 |
| Business support services | 19,005 |
| Plant operations and management | 654,492 |
| Student transportation | 135,264 |
| Community service activities | <u>207</u> |

| | |
|---|-----------------------|
| Total depreciation expense - Governmental functions | <u><u>954,037</u></u> |
|---|-----------------------|

Proprietary functions:

| | |
|-------------------------|----------------------|
| Food service operations | <u><u>73,941</u></u> |
|-------------------------|----------------------|

NOTE F –

COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2012, as follows:

Year ending June 30:

| | |
|--------------|-----------------------|
| 2013 | 40,449 |
| 2014 | 37,451 |
| 2015 | 37,451 |
| 2016 | 4,176 |
| 2017 | <u>-</u> |
| <u>Total</u> | <u><u>119,527</u></u> |

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Pension Plan

Plan Description – The Leslie County Public Schools contribute to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012**NOTE G – RETIREMENT PLANS (continued)**

systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.355% of their salaries to KTRS and 10.855% if hired on or after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions of 13.605% for members hired before July 1, 2008 and 14.105% for those hired after that date.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy – In order to fund the post-retirement healthcare benefit, two and one-half percent (2.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One percent and one-quarter (1.25%) is paid by member contributions and .75% from state appropriation and .50% from the employer. Members after July 1, 2008 contribute an additional .50% to the Medical Insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Leslie County Public School District's total payroll for the year was \$11,771,841. The payroll for employees covered under KTRS was \$9,251,326. For the year ended

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE G – RETIREMENT PLANS (continued)

June 30, 2012, the Commonwealth contributed \$997,094 to KTRS for the benefit of the participating employees. The School District's contributions to KTRS for the year ending June 30, 2012 were \$227,806, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00%, and a district contribution of 18.96% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,533,029.

The contribution requirement for CERS for the year ended June 30, 2012 was \$598,649 which consisted of \$473,931 from the District and \$124,718 from the employees.

Following is a summary of contributions paid on-behalf of the employees for the past three years:

| Year Ended | KTRS | | |
|-----------------|-----------------|--------------|-------------|
| <u>June 30,</u> | <u>District</u> | <u>State</u> | <u>CERS</u> |
| 2012 | 227,806 | 997,094 | 473,931 |
| 2011 | 214,765 | 994,730 | 418,927 |
| 2010 | 168,876 | 1,131,533 | 418,354 |

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

| | KTRS | CERS |
|---|----------------------------|----------------------------|
| | <u>as of June 30, 2011</u> | <u>as of June 30, 2011</u> |
| | (in millions of dollars) | (in millions of dollars) |
| Actuarial accrued liabilities | 25,968.7 | 11,777.1 |
| Actuarial value of assets | <u>14,908.1</u> | <u>7,409.2</u> |
| Unfunded (overfunded) actuarial accrued liabilities | <u>11,060.6</u> | <u>4,367.9</u> |

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE G – RETIREMENT PLANS (continued)

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance for worker's compensation, errors and omissions, educator's legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers' Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2012:

None

The following funds had expenditures in excess of revenues at June 30, 2012:

| | |
|---|--------|
| Mountain View Elementary Activity Fund | 11,566 |
| Leslie County Middle School Activity Fund | 3,388 |
| Stinnett Elementary Activity Fund | 2,298 |
| WB Muncy Activity Fund | 2,443 |
| SEEK Capital Outlay Fund | 730 |

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

| NOTE | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> | O – |
|------|---------------------|----------------------|------------------------|------------------|-----|
| | Capital Outlay Fund | General Fund | Operating expenditures | 78,750 | |
| | FSPK Fund | General Fund | Operating expenditures | 770,761 | |
| | General Fund | Special Revenue Fund | Technology match | 18,812 | |
| | General Fund | Debt Service Fund | Debt service | 153,218 | |
| | Capital Outlay Fund | Debt Service Fund | Debt service | 78,750 | |
| | FSPK Fund | Debt Service Fund | Debt service | 365,943 | |
| | | | | <u>1,466,234</u> | |

INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2012 were as follows:

None

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2012NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2012, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Capital Projects Funds</u> | <u>Proprietary Funds</u> |
|---|-------------------------|--------------------------------------|---------------------------------------|------------------------------|
| Fund Balance/Retained Earnings as reported to the Department of Education | 1,684,843 | (92,044) | 1,105,692 | 209,619 |
| Adjustment to Fund Balance/Retained Earnings | | | | |
| (1) To reclassify and adjust cash and investments | 24,602 | (24,602) | (48,500) | 53 |
| (2) To adjust for investments | - | - | 8,778,760 | - |
| (3) To adjust accounts receivable | 55,115 | 116,646 | - | 2,384 |
| (4) To adjust accounts payable | 61,128 | - | (447,824) | (33) |
| (5) To adjust inventory | - | - | - | 8,476 |
| (6) To record net fixed assets | - | - | - | 1,660,134 |
| Fund Balance/Retained Earnings per fund financial statements at June 30, 2012 | <u>1,825,688</u> | <u>-</u> | <u>9,388,128</u> | <u>1,880,633</u> |

NOTE Q – ON-BEHALF PAYMENTS

| | |
|--------------------------------------|------------------|
| Kentucky Teacher's Retirement System | 1,200,285 |
| Health Insurance | 2,017,847 |
| Life Insurance | 4,934 |
| Administrative Fees | 23,355 |
| Health Reimbursement Account | 100,100 |
| Less: Federal Reimbursement | (234,323) |
| Vocational Education | <u>80,175</u> |
| <u>Sub-Total</u> | 3,192,373 |
| Allocated to Food Service Fund | <u>(154,263)</u> |
| Allocated to General Fund | <u>3,038,110</u> |

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2012

NOTE R – NEW ACCOUNTING STANDARD IMPLEMENTATION

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2012:

| Fund Balances | General Fund | Other Funds | Total |
|----------------------------|------------------|------------------|-------------------|
| Committed - sick leave | 113,736 | - | 113,736 |
| Committed - other | - | 34,421 | 34,421 |
| Unassigned fund balance | 1,711,952 | 9,353,707 | 11,065,659 |
| <u>Total fund balances</u> | <u>1,825,688</u> | <u>9,388,128</u> | <u>11,213,816</u> |

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The Statement of Net Assets reflects reserves for fixed assets and school food service inventory.

NOTE S – BEGINNING NET ASSET RESTATED, CHANGE IN FIXED ASSET THRESHOLD

Beginning net assets, governmental activities, was decreased \$205,464 reflecting the District's change in its accounting threshold to recognize fixed assets. Beginning July 1, 2011 the District recognizes only fixed asset purchases \$5,000 and greater. After this change, the District will expense purchases under \$5,000 as incurred. No individual accounting will be necessary moving forward for asset purchases under this amount through the financial reporting system. The District also recognized as a beginning net asset decrease for its proprietary fund \$59,081 as a result of this change in accounting principle.

NOTE T – SUBSEQUENT EVENTS

The Leslie County ATC renovation and construction project was officially closed after June 30, 2012. The total cost of construction was \$321,043. The Hayes Lewis Elementary renovation project was closed after the balance sheet date. Total cost was \$1,103,953. The District sold its Big Creek Elementary facilities to Big Creek Missions, a non-profit corporation for \$300,000 on October 2, 2012.

LESLIE COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | | Variance Favorable (Unfavorable) |
|---|-------------------------|-------------------|-------------------|--|
| Revenues: | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| From local sources: | | | | |
| Taxes | 2,977,596 | 3,110,464 | 3,529,293 | 418,829 |
| Earnings on investments | 20,000 | 20,000 | 50,807 | 30,807 |
| Other local revenue | 10,000 | 19,696 | 51,482 | 31,786 |
| Intergovernmental - state | 7,948,174 | 7,792,459 | 10,823,199 | 3,030,740 |
| Intergovernmental - indirect federal | 15,000 | 15,000 | 29,592 | 14,592 |
| <u>Total revenues</u> | <u>10,970,770</u> | <u>10,957,619</u> | <u>14,484,373</u> | <u>3,526,754</u> |
| Expenditures: | | | | |
| Instructional | 5,040,158 | 5,310,297 | 7,191,661 | (1,881,364) |
| Student support services | 690,378 | 627,891 | 892,292 | (264,401) |
| Staff support services | 580,310 | 594,380 | 636,191 | (41,811) |
| District administration | 289,828 | 303,485 | 462,511 | (159,026) |
| School administration | 888,911 | 899,146 | 1,088,844 | (189,698) |
| Business support | 291,831 | 293,510 | 410,208 | (116,698) |
| Plant operations and management | 1,594,973 | 1,609,162 | 1,874,464 | (265,302) |
| Student transportation | 1,406,396 | 1,418,545 | 1,561,080 | (142,535) |
| Community service activities | 5,000 | 5,000 | 5,089 | (89) |
| Employee benefits | 145,734 | 118,341 | 64,109 | 54,232 |
| Contingency | 341,194 | 475,570 | - | 475,570 |
| <u>Total expenditures</u> | <u>11,274,713</u> | <u>11,655,327</u> | <u>14,186,449</u> | <u>(2,531,122)</u> |
| Excess (deficit) of revenues over expenditures | <u>(303,943)</u> | <u>(697,708)</u> | <u>297,924</u> | <u>995,632</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | (35,000) | (35,000) | 849,511 | - |
| Operating transfers out | - | - | (172,030) | (172,030) |
| Gain (loss) on sale of assets | 2,575 | 2,575 | 4,900 | 2,325 |
| <u>Total other financing sources (uses)</u> | <u>(32,425)</u> | <u>(32,425)</u> | <u>682,381</u> | <u>(169,705)</u> |
| Excess (deficit) of revenue and other financing sources over expenditures/other financing uses | <u>(336,368)</u> | <u>(730,133)</u> | <u>980,305</u> | <u>1,710,438</u> |
| Fund balance - July 1, 2011 | <u>336,368</u> | <u>731,647</u> | <u>731,647</u> | <u>-</u> |
| Fund balance - June 30, 2012 | <u>-</u> | <u>1,514</u> | <u>1,711,952</u> | <u>1,710,438</u> |

Note:

- State on-behalf revenues and expenditures, \$3,038,110 reflected in actual, are not budget line items.
- Operating transfers out includes \$153,218 for debt service payments.
- Actual fund balance at July 1, 2011 excludes \$113,736 committed for sick leave.

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS**

For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | | Variance Favorable (Unfavorable) |
|---|-------------------------|-----------------------|------------------|--|
| Revenues: | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Intergovernmental - state | 825,026 | 1,064,759 | 960,891 | (103,868) |
| Intergovernmental - indirect federal | 2,287,231 | 2,462,537 | 2,985,831 | 523,294 |
| <u>Total revenues</u> | <u>3,112,257</u> | <u>3,527,296</u> | <u>3,946,722</u> | <u>419,426</u> |
| Expenditures: | | | | |
| Instructional | 2,425,069 | 2,591,413 | 3,169,315 | (577,902) |
| Student support services | 69,407 | 219,643 | 131,554 | 88,089 |
| Staff support services | 241,760 | 283,145 | 281,853 | 1,292 |
| Business support services | 43,004 | 43,004 | 51,533 | (8,529) |
| Plant operations and management | 14,865 | 14,496 | 12,732 | 1,764 |
| Student transportation | 107,654 | 118,633 | 99,126 | 19,507 |
| Community service activities | 245,498 | 221,314 | 219,421 | 1,893 |
| <u>Total expenditures</u> | <u>3,147,257</u> | <u>3,491,648</u> | <u>3,965,534</u> | <u>(473,886)</u> |
| Excess (deficit) of revenues over expenditures | <u>(35,000)</u> | <u>35,648</u> | <u>(18,812)</u> | <u>(54,460)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | 35,000 | 35,000 | 18,812 | (16,188) |
| Operating transfers out | - | - | - | - |
| <u>Total other financing sources (uses)</u> | <u>35,000</u> | <u>35,000</u> | <u>18,812</u> | <u>(16,188)</u> |
| Excess (deficit) of revenue and other financing sources over expenditures/other financing uses | - | 70,648 | - | (70,648) |
| Fund balance - July 1, 2011 | <u>-</u> | <u>499,980</u> | <u>-</u> | <u>(499,980)</u> |
| Fund balance - June 30, 2012 | <u><u>-</u></u> | <u><u>570,628</u></u> | <u><u>-</u></u> | <u><u>(570,628)</u></u> |

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2012

| | <u>SEEK Capital Outlay Fund</u> | <u>Building Fund</u> | <u>Debt Service Funds</u> | <u>Total</u> |
|--|-------------------------------------|--------------------------|-------------------------------|----------------------|
| Asset and resources: | | | | |
| Cash and cash equivalents | <u>33,691</u> | <u>-</u> | <u>-</u> | <u>33,691</u> |
| Total assets and resources | <u><u>33,691</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>33,691</u></u> |
| Liabilities and fund balances: | | | | |
| Cash deficit | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - Fund balances - | | | | |
| Unassigned fund balance | <u>(730)</u> | <u>-</u> | <u>-</u> | <u>(730)</u> |
| Restricted for SFCC | <u>34,421</u> | <u>-</u> | <u>-</u> | <u>34,421</u> |
| Total fund balances | <u><u>33,691</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>33,691</u></u> |
| Total liabilities and fund balances | <u><u>33,691</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>33,691</u></u> |

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2012

| | SEEK Capital Outlay Fund | Building Fund | Debt Service Funds | Total |
|--|--------------------------------|--------------------|-----------------------|------------------|
| Revenues: | | | | |
| From local sources: | | | | |
| General real property tax | - | 573,648 | - | 573,648 |
| Intergovernmental - State | 156,770 | 563,056 | 648,153 | 1,367,979 |
| <u>Total revenues</u> | <u>156,770</u> | <u>1,136,704</u> | <u>648,153</u> | <u>1,941,627</u> |
| Expenditures: | | | | |
| Bond principal | - | - | 668,776 | 668,776 |
| Bond interest | - | - | 577,288 | 577,288 |
| <u>Total expenditures</u> | <u>-</u> | <u>-</u> | <u>1,246,064</u> | <u>1,246,064</u> |
| Excess (deficit) of revenues over expenditures | <u>156,770</u> | <u>1,136,704</u> | <u>(597,911)</u> | <u>695,563</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | 597,911 | 597,911 |
| Operating transfers out | (157,500) | (1,136,704) | - | (1,294,204) |
| <u>Total other financing sources (uses)</u> | <u>(157,500)</u> | <u>(1,136,704)</u> | <u>597,911</u> | <u>(696,293)</u> |
| Excess (deficit) of revenues and other financing sources over expenditures and other financing uses | <u>(730)</u> | <u>-</u> | <u>-</u> | <u>(730)</u> |
| Fund balance, July 1, 2011 | <u>34,421</u> | <u>-</u> | <u>-</u> | <u>34,421</u> |
| Fund balance, June 30, 2012 | <u>33,691</u> | <u>-</u> | <u>-</u> | <u>33,691</u> |

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCELESLIE COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2012

| <u>Fund Accounts</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Excess (Deficit) of Revenues over Expenditures</u> | <u>Fund Balance July 1, 2011</u> | <u>Fund Balance June 30, 2012</u> |
|---------------------------|-----------------|---------------------|---|--------------------------------------|---------------------------------------|
| General Fund | 16,664 | 16,484 | 180 | 2,634 | 2,814 |
| Textbook | 1,000 | 1,000 | - | 1,012 | 1,012 |
| Teacher Vending | 2,878 | 2,190 | 688 | 114 | 802 |
| National Honor Society | 385 | 565 | (180) | 180 | - |
| Drama Club | - | - | - | 145 | 145 |
| Student Body Government | 60 | 265 | (205) | 392 | 187 |
| Extracurricular | 79,692 | 81,148 | (1,456) | 3,319 | 1,863 |
| Academics | 1,240 | 1,256 | (16) | 16 | - |
| Band | 5,937 | 4,558 | 1,379 | 1 | 1,380 |
| Baseball | 8,502 | 5,216 | 3,286 | 9 | 3,295 |
| Boys Basketball | 14,713 | 14,776 | (63) | 63 | - |
| Football | 1,087 | 784 | 303 | 88 | 391 |
| FB Cheerleaders | 8,901 | 8,222 | 679 | 6 | 685 |
| Girls Basketball | 18,074 | 18,226 | (152) | 580 | 428 |
| Softball | 2,846 | 3,257 | (411) | 411 | - |
| Track | 5,820 | 5,654 | 166 | 50 | 216 |
| Volleyball | 7,048 | 5,505 | 1,543 | 2,848 | 4,391 |
| Cross Country | 3,469 | 3,727 | (258) | 258 | - |
| Weight Room | - | 75 | (75) | 75 | - |
| Fence | 6,000 | 6,000 | - | - | - |
| Senior Class | 40,944 | 40,944 | - | - | - |
| Juniors | 5,220 | 4,331 | 889 | 692 | 1,581 |
| Journalism | 8,216 | 14,267 | (6,051) | 6,304 | 253 |
| Project Sober | - | 240 | (240) | 400 | 160 |
| Field House | - | - | - | 1,000 | 1,000 |
| <u>Sub-total</u> | <u>238,696</u> | <u>238,690</u> | <u>6</u> | <u>20,597</u> | <u>20,603</u> |
| Less: Interfund transfers | <u>14,445</u> | <u>14,445</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>Total</u> | <u>224,251</u> | <u>224,245</u> | <u>6</u> | <u>20,597</u> | <u>20,603</u> |

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2012

| | Hayes Lewis Elementary | Mountain View Elementary | Leslie County Middle | Stinnett Elementary | W.B. Muncy Elementary | Total (Memorandum Only) |
|---|------------------------------|--------------------------------|-------------------------|------------------------|-----------------------------|-------------------------------|
| <u>REVENUES:</u> | | | | | | |
| Activity funds | 29,398 | 28,047 | 31,254 | 56,542 | 55,253 | 200,494 |
| <u>EXPENDITURES:</u> | | | | | | |
| Activity funds | <u>27,649</u> | <u>39,613</u> | <u>34,642</u> | <u>58,840</u> | <u>57,696</u> | <u>218,440</u> |
| Excess or (deficiency) of revenues over <u>expenditures</u> | 1,749 | (11,566) | (3,388) | (2,298) | (2,443) | (17,946) |
| Fund Balance, July 1, 2011 | <u>13,337</u> | <u>16,912</u> | <u>5,818</u> | <u>28,931</u> | <u>19,902</u> | <u>84,900</u> |
| Fund Balance, June 30, 2012 | <u><u>15,086</u></u> | <u><u>5,346</u></u> | <u><u>2,430</u></u> | <u><u>26,633</u></u> | <u><u>17,459</u></u> | <u><u>66,954</u></u> |

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantors Number</u> | <u>Program Award Amount</u> | <u>Program Expenditures</u> |
|--|------------------------------------|---|-------------------------------------|---------------------------------|
| <u>U. S. Department of Agriculture</u> | | | | |
| Passed through State Department of Education: | | | | |
| - Child Nutrition Cluster - | | | | |
| School Breakfast Program | 10.553 | 7760005 11 | N/A | 55,547 |
| | 10.553 | 7760005 12 | N/A | 143,170 |
| | | | | <u>198,717</u> |
| School Lunch Program | 10.555 | 7750002 11 | N/A | 116,205 |
| | 10.555 | 7750002 12 | N/A | 325,348 |
| | | | | <u>441,553</u> |
| Summer Food Service Program for Children | 10.559 | 7690024 11 | N/A | 396 |
| | 10.559 | 7690024 12 | N/A | 350 |
| | 10.559 | 7740023 11 | N/A | 3,829 |
| | 10.559 | 7740023 12 | N/A | 3,395 |
| | | | | <u>7,970</u> |
| Passed through State Department of Agriculture: | | | | |
| National School Lunch Program | 10.555 | 066-0100 | N/A | 62,513 |
| Total Child Nutrition Cluster | | | | <u>710,753</u> |
| Passed through Leslie County Fiscal Court | | | | |
| Schools and Roads Grant to States | 10.665 | N/A | N/A | 44,278 |
| <u>Total U.S. Department of Agriculture</u> | | | | <u>755,031</u> |
| <u>U.S. Department of Commerce</u> | | | | |
| Direct | | | | |
| (PRIDE) Personal Responsibility in a Desirable Environment | | | | |
| - Byrne Discretionary Program | 11.420 | 2705 | 5,000 | 493 |
| | 11.420 | 2711 | 8,000 | 2,028 |
| | | | | <u>2,521</u> |
| <u>Appalachian Regional Commission</u> | | | | |
| Direct | | | | |
| Appalachian Higher Education Network (KY AHED) | 23.011 | 6882 | 5,000 | 2,993 |
| <u>U. S. Department of Education</u> | | | | |
| Passed through State Department of Education: | | | | |
| Title 1 | 84.010 | 3102 | 875,648 | 764,119 |
| | 84.010 | 3102D | 124,400 | 91,650 |
| | 84.010 | 3102T | 8,200 | 8,200 |
| | 84.010 | 3101M | 11,000 | 11,000 |
| | 84.010 | 3101T | 8,000 | 8,000 |
| | 84.010 | 3101D | 141,778 | 85,603 |
| | 84.010 | 3109T | 7,500 | 2,844 |
| Title 1 ARRA | 84.389 | 3919 | 669,813 | 166,384 |
| | 84.389 | 3919M | 6,766 | 707 |
| | | | | <u>1,138,507</u> |

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2012

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantors Number</u> | <u>Program Award Amount</u> | <u>Program Expenditures</u> |
|---|------------------------------------|---|-------------------------------------|---------------------------------|
| -Special Education Cluster - | | | | |
| IDEA - B Basic | 84.027 | 3372 | 450,172 | 253,212 |
| | 84.027 | 3371 | 452,300 | 122,139 |
| | 84.027 | 3375 | 459,289 | 46 |
| IDEA - B Preschool ARRA | 84.392A | 4239 | 28,936 | 6,107 |
| IDEA - B ARRA | 84.391 | 4249 | 430,241 | 6,047 |
| | 84.391 | 4249P | 6,387 | 6,387 |
| Special Education - Preschool | 84.173 | 3432 | 20,244 | 19,698 |
| Total - Special Education Cluster | | | | 413,636 |
| | 84.358 | 3501 | 48,954 | 15,566 |
| Rural/Low Income School Program | 84.358 | 3501 | 38,311 | 6,137 |
| | | | | 21,703 |
| Tech Prep | 84.243 | 3639 | 16,000 | 367 |
| Special Education - Professional Development | 84.323 | 3337U | 30,000 | 89 |
| Gear Up | 84.334A | 3792G | 89,212 | 51,912 |
| Improving Teacher Quality State Grants | 84.367 | 4012 | 215,984 | 172,533 |
| | 84.367 | 4011 | 243,503 | 32,049 |
| | | | | 204,582 |
| Title IV - Safe and Drug Free Schools and Communities | 84.186 | 4069 | 13,876 | 268 |
| Title II - D Education Technology | 84.318X | 4250C | 31,123 | 3,318 |
| Title II - Part D | 84.386A | 4850 | 20,700 | 2,227 |
| Title IV - Elementary School Counseling Program | 84.215E | 5322 | 150,236 | 80,198 |
| School Improvement Grant ARRA | 84.388A | 5600A | 498,795 | 116,138 |
| | 84.388A | 5600B | 499,874 | 316,779 |
| | | | | 432,917 |
| Education Jobs Fund | 84.410 | 4411 | 454,960 | 454,960 |
| - Direct - | | | | |
| Mentoring Program Grant | 84.184B | 5340B | 152,431 | 2,399 |
| | 84.287A | 5501 | 151,000 | 116,411 |
| | 84.184E | 5340 | 99,900 | 2,028 |
| | | | | 120,838 |
| Total Department of Education | | | | 2,925,522 |
| Total Federal Awards Expended | | | | 3,686,067 |

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2012**NOTE A**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Leslie County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE B

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

See Independent Auditor's Report.

Chris Gooch

Certified Public Accountant
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REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District as of and for the year ended June 30, 2012 which collectively comprise the Leslie County School District's basic financial statements and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Completion and Electronic Submission.

Internal Control Over Financial Reporting

Management of Leslie County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Leslie County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leslie County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as 2012-1 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leslie County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 6, 2012. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

This report is intended solely for the information and use of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Leslie County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 6, 2012

Chris Gooch

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

Compliance

We have audited Leslie County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Leslie County School District's major federal programs for the year ended June 30, 2012. Leslie County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Leslie County School District's management. Our responsibility is to express an opinion on Leslie County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Leslie County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Leslie County School District's compliance with those requirements.

In our opinion, Leslie County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Leslie County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Leslie County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

This report is intended solely for the information and use of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Leslie County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 6, 2012

LESLIE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2012- SUMMARY OF AUDIT RESULTS –

1. We have issued an unqualified opinion on the financial statements.
2. No material weakness was disclosed by the audit of the financial statements. A significant deficiency was disclosed by the audit if the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Leslie County School District had the following major programs:
 - U. S. Department of Education
 - Passed through State Department of Education -
 - Title I
 - CFDA number 84.010
 - Title I Grants to Local Agencies – Recovery Act
 - CFDA number 84.389A
 - Special Education Cluster -
 - IDEA-B Basic
 - CFDA numbers 84.027, 84.391 and 84.392
 - IDEA-B Preschool
 - CFDA number 84.173
 - Education Jobs Fund -
 - CFDA number 84.410
 - School Improvement Grant -
 - CFDA number 84.388
 - U.S. Department of Agriculture
 - Passed through State Departments of Education and Agriculture -
 - Child Nutrition Cluster -
 - School Lunch and Breakfast Program, Summer Food Service Program for Children
 - CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2012- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2012-1:**

| | |
|--------------------|--|
| Condition: | Mountain View Elementary Activity Fund supporting documentation as required by "Accounting Procedures for School Activity Funds" was incomplete or unavailable at time of audit, including fundraising reports, ticket sales reports, vendor invoices, cash receipts and inventory control reports. |
| Criteria: | District personnel involved in school activity accounting should be knowledgeable as to documentation requirements for applicable transactions regarding its individual funds. Adequate segregation of duties and monitoring of transactions should be maintained so that instances of missing or unavailable documentation may be readily discovered. |
| Cause: | Transactions were conducted without applicable supporting schedules and other documentation. Monitoring was ineffective. |
| Effect: | The risk of fraud or misappropriation of activity funds is greater when transactions are not supported by sufficient documentation as required. |
| Recommendation: | The District should ensure continuing education regarding activity fund accounting procedures for applicable personnel. The District should ensure and document adequate segregation of duties and monitoring for activity fund transactions. |
| District Response: | The District will provide continuing education. District management will ensure the activity fund has adequate segregation of duties, evidence of monitoring and evidence of supporting documentation for its transactions. |

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

Chris Gooch

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Leslie County Board of Education
Hyden, Kentucky

In planning and performing our audit of the financial statements of Leslie County School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 6, 2012, contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 6, 2012 on the financial statements of the Leslie County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", written in a cursive style.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 6, 2012

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2012**Prior Year Comments**

1. We recommended during our previous audit that purchase orders should provide a reasonable estimate of the amount actually disbursed. It was noted during a general fund test of disbursement transactions related to vehicle fuel, parts and supplies three purchase orders whose amount listed was not comparable to the actual amount paid.
 - When sample testing disbursement transactions during the current year, we noted three transactions with purchase order dates subsequent to the invoice date. Management should use purchase orders to monitor and control District materials and supplies.
2. We recommended for the activity fund level that all disbursement transactions should have readily available documentation confirming its purpose and function. We noted four transactions at various school locations during the prior year audit without satisfactory documentation.
 - We noted four disbursement transactions during the current year audit without supporting documentation based on our sample of disbursements selected at the activity fund level. Management
3. When performing a walk-through of fixed assets at Mountain View Elementary, we noted several assets on the detail fixed asset listing not observed. We also noted some assets tagged but not listed on the detail. Management should periodically review its detail fixed asset listing and compare to the physical site location. Management should stress to personnel at each location the importance of notifying central office financial management when disposals or transfers of fixed assets occur.
 - We noted nine assets on-site at Mountain View Elementary that were not included on the District's detail listing for this location. Management has notified applicable personnel to inform Central Office finance when transfers occur. Management will provide evidence of periodically comparing its detail listing to physical assets per site location.
4. When examining payroll authorization deductions we noted some employees without authorization deductions on file for one of its insurance providers. Management should periodically monitor its authorization documentation for personnel to ensure information agrees to amounts withheld.
 - For our sample tested during the current year audit, five personnel were noted as having incomplete or missing I-9 forms. Management will continue to monitor periodically for complete personnel authorization information.

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2012**Prior Year Comments (continued)**

5. We were made aware prior to our auditing Leslie County High School's Activity Fund cash proceeds from Senior Trip fundraisers had been stolen from a vehicle of a sponsor. Management estimated the initial loss at \$6,000 and at June 30, 2012 audit date \$3,600 had been recovered. Management has emphasized to fundraising sponsors the importance of remitting cash on a timely basis.
 - We noted no transactions of this nature during our current year audit.
6. Management should emphasize the importance of periodically reconciling its payroll reporting forms to general ledger MUNIS detail.
 - Management has developed procedures to ensure adequate reconciliation of its payroll reporting forms to general ledger MUNIS detail.
7. Management should ensure the District has a good understanding for allocation of fund balance among unassigned, assigned and committed categories.
 - Management has developed procedures to ensure personnel have an understanding of fund balance allocations.
8. Evidence should be maintained indicating the District's bank statements are reviewed prior to delivery to personnel responsible for processing, recording or reconciliation. Evidence should be maintained indicating the District's bank reconciliation is reviewed.
 - Management has developed procedures enabling review of bank statements by personnel not involved in processing, recording or reconciliation.

Current Year Comments

1. We noted Hayes Lewis Elementary activity fund contractual expenditure for \$1,425 regarding painting of gym floor. Management should have a process documenting its explanation for placing this type expenditure in an activity fund and assuring regulatory reporting is compiled and filed timely, i.e., W-9 and 1099-MISC forms. Management will emphasize to activity fund clerks and principals the importance of informing District finance personnel regarding transactions of this nature.